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By email: ccc-plan@ccc.govt.nz

15th April 2009

SUBJECT: SUBMISSION ON COUNCIL'S LTCCP PLAN 2009/19

Introduction

Your Worship and Councillors,

Kiwi Property Management Limited, on behalf the owners of Northlands Shopping Centre in Christchurch, is pleased to make a submission to your Council on its Draft Long Term Council Community Plan for the decade 2009-2019. It is our wish to be heard by Council.

Before outlining the specific issues which are of concern to our company and the retailers of Northlands Shopping Centre, we wish to congratulate the Council on the improvements it has made to its presentation of what can only be described as a massively voluminous amount of information which the law prescribes. Although it is necessary to read both volumes of the document to understand fully what Council proposes for the ensuing decade and the 2009/10 year in particular, it has been well presented and is therefore easily readable. The photographs are of very high quality and reinforce the city's reputation as a vibrant and exciting community in which to live, work and play.

We reaffirm our previous statements of support for the Council in its general direction for Christchurch and our company's faith in the city's future. Our submission to the Draft LTCCP in 2006 clearly set out our strong support for the direction in which the Council was proposing to take the City and we are pleased to note that the current review retains those key objectives. We will therefore concentrate our submission on specific issues which are of interest to our company and the businesses which are based at Northlands. We sincerely hope that these will be received in the spirit in which they are given.

Issues Contained In This Submission

The issues which we address are ones which are of interest to us and we believe Council should reconsider and make appropriate amendments to its plans. These are set out under the following headings:

- 1. Rates increases**
- 2. Differential Rating**
- 3. Rating for Depreciation**
- 4. Water Conservation**
- 5. City Centre Revitalisation**
- 6. Social Housing**
- 7. Public Toilets**

We expand on our concerns about these key issues as follows:

1. Rates Increases

Council may be surprised that we should voice our serious concern with the proposed rates increases, which are certainly less than were projected in the previous LTCCP. They are particularly identified on Page 8 of Volume 1 of the Draft LTCCP in the joint statement of the Mayor and Chief Executive, who have noted that the average rates increase over the life of the Draft LTCCP is expected to be below 4% per annum. This year's increase is proposed to be 3.9%.

However, while the proposed rates increases represents an improvement on Council's thinking in the 2006/16 LTCCP, they are still higher than the local economy can afford to pay in the current economic climate. The uncertainty about both the short and long term future means that Council should not only reduce the rates increase for the coming year but must also review its projections for the whole decade.

Page 41 of Volume 2 of the draft plan shows that projected rates increases over the 9 years from 2009/10 total 54.8%. Even after allowing for the natural growth in the rates base from capital improvements of some 1% pa, the projected growth in real terms is almost certainly greater than both the rate-paying residential and business sectors can sustain. Indeed, the current economic climate makes it highly likely that both the residential and business sectors will face the prospect of static or decreasing incomes for some time ahead.

Page 46 of Volume 1 of the draft plan sets out the summary of expenditure and sources of funding. These show that total expenditure is projected to increase by 46.7% over the 9-year life of the LTCCP while the rates requirement is 54.8%, the difference being accounted for by the relatively small growth in income other than rates.

This latter aspect is of concern in two particular areas. Firstly, Fees, Charges and Operational Subsidies show an increase of only 32.5% over the 9 years, which suggests that Council should address this area of funding to keep it at least in pace with inflation in rates. Secondly, income from Development Contributions is projected to rise by 193% over the period, which indicates that Council anticipates major development growth from 2010 onwards. This is by no means a certainty, given the unknown effects of the current world economic crisis. If the level of these contributions does not reach the dizzy heights estimated in the Draft Plan, there is only one likely source of funding the shortfall, and that is the ratepayers.

We commend Council for adopting a better approach to funding its capital works over the long term, as this has undoubtedly lightened the burden on ratepayers. However, it is imperative that Council takes note of the situation in which ratepayers find themselves. We have been submitting to Council for several years that business ratepayers, particularly those in the retail sector, are experiencing really tough times and their incomes are not keeping pace with the inflation in

Council's rates charges. Businesses cannot simply increase prices to absorb such cost increases, as it is competition and buyer resistance which dictate price levels. This is particularly evident in the latest economic downturn.

Rates debtors are expected to increase by 76.3% in monetary terms over the decade from 2008/09 to 2018/19 [Page 228 of Volume 1]. This increase is, in part at least, likely to be due to an inability to pay. It is something of which Council should take careful note.

To put it simply, any rates increase is too much and Council must do as their counterparts in the business world have to do, namely to trim their costs to match their estimated achievable income.

Submission:

Council must review its Draft LTCCP to reduce the rating impact, through a comprehensive review of expenditure and income sources other than rates.

2. Differential Rating

Council will be well aware that we have submitted over several years on the nagging issue of the differential rating of the Business Sector. We had hoped that, in formulating this Draft LTCCP, Council would take action to remove this discriminatory penal taxing of the Business Sector of the Christchurch community. After all, our pleas for Council to change its policy of rating for depreciation appears to have borne fruit and we will be commenting favourably on this in the next Issue. We had hoped Council would also accept our submissions on differential rating, which are based on logical analysis.

We do not propose to re-litigate the whole of the case we made at the time of consideration of the 2006/16 Draft LTCCP. However, we must reaffirm the key aspects of our case.

- Differential Rating was originally written into law simply to address anomalies which arose in Land Value Rating when residential land was rezoned for commercial purposes. It enabled councils to ensure that residential ratepayers were not penalised through the increase in the value of their land. That was its sole purpose at the time of its enactment in the early 1970s.
- Differential Rating is not an instrument for "redistribution of income" through transferring rating burdens from residential to commercial ratepayers. Income redistribution is the responsibility of the central government, through income taxation.
- Sections 13 and 14 of the Local Government (Rating) Act 2002 have given Council the power to rate land differentially, while Schedule 10 of the Local Government Act 2002 Sections 10 and 13 requires councils which propose to impose a differential rate, to state in their LTCCP and Annual Plan "the objectives of the differential, in terms of the total revenue sought from each category of land or of the relationship between the rates set on rateable land in each category".
- On the basis of the current law, Councils may levy a differential rate when there are clearly proven additional benefits or penalties in the provision of identifiable services provided to a sector of the community. An example used by most councils is the lack of footpaths, street lighting and piped services provided to properties in the rural sector, which justify a negative differential.
- The business sector is different to the residential in that rates are a cost which reduces the after-tax income available to the owners of businesses from any profits which the business can make. By applying a differential penalty tax, Councils are effectively double taxing a particular sector of the community.

- Capital Value Rating produces a theoretical "ability to pay" distribution of the rating costs to the various sectors of the community.

With respect to the latter, we refer Council to Page 42 of Volume 2 of the Draft LTCCP where Council itself has stated inter-alia "*capital value helps to ensure rating equity because there is a strong correlation between capital value and household income and therefore ability to pay rates*". Even if Council wanted to achieve a method of "income redistribution", by its own admission it has shown that its Capital Value rating system is intended to do exactly that!

We believe very firmly that Council has a clear obligation to apply differentials only in cases where there is a logically substantiated reason for it. The rural sector, we have referred to previously, is a very obvious example of a case which can be clearly shown to deserve consideration and the cost of the service is readily identifiable.

However, as in the case of the Draft LTCCP 2006/16, Council has resorted to penalty rating of businesses. To justify this, an attempt has been made to show a benefit which is apparently enjoyed by the business sector, namely a greater burden of road maintenance caused by an alleged additional load on road caused by commercial vehicles. This is stated to be based on an analysis by Council, which is not shown in the document.

It is interesting to note that, as in 2006, no evidence whatsoever has been advanced in the Draft LTCCP documents to prove that the business ratepayers actually do enjoy a particular benefit over other ratepayers. No evidence is advanced to identify the volumes and axle loadings of vehicles which use the city's roading system or to prove that 55% of the cost of maintenance is due to the alleged commercial vehicle volume. And it is interesting to note that the wording of the new documents are virtually identical with 2006, including the alleged 55% of the cost, ***although in 2006 the 55% cost apportionment produced a 45% differential compared with a massive 60% in the 2009 draft document.***

It is important that Council produces written evidence to support its contention that the Business Sector is responsible for 55% of the cost of street maintenance in the City of Christchurch and the calculations which arrived at the conclusion that this apportionment should penalise the Business Sector by increasing its rate burden by 60%. We ask Council to provide this information in the event that it resolves to maintain its current practise.

We are firmly of the view that Council has decided that it should engage in "income redistribution" by subterfuge. This is evidenced by the absence of a similar approach to the council's other activities [refer to Pages 53-94 of Volume 2]. If they were analysed on the same logic as for roading, Council would have determined that many of Council's activities have a greater benefit for the residential sector and in some cases for readily identifiable groups of users of the services, which should result in a differential loading on those particular sections of the community. Obviously this would be vigorously opposed and with justification. If the residential, rural and business sectors are all regarded as interdependent, there is no case for any particular service to be plucked out for loading costs onto a portion of the city's community.

Clearly, Council has failed to prove that there is a case for levying a higher rate on the capital value of business land than for other ratepayers. It is a discriminatory tax and steps must be taken to remove it. And to support our case we remind Council of the basket of recommendations of the Government

Commission of Inquiry into rating, to which the Mayor and Chief Executive have referred on Page 8 of Volume 1 of the Draft LTCCP. One of their recommendations was:

- "That rating differentials be removed from the Local Government (Rating) Act 2002 from an operative date of 1 July 2012."
- "That councils be encouraged to make more use of their powers for flexibility in rating so that the rating burden better reflects value in use."

We are disappointed that Council has ignored the submissions we have made over the past few years. No attempt has been made to provide us with the clear evidence to support Council's differentiation in taxation levying. In previous submissions we have urged Council to remove this discriminatory tax on business. We would prefer to see this done in the current year, but we would consider it prudent to take the form of a phased reduction over a period of, say, 5 years, to achieve an ultimate abolition of the differential, in order to smooth the transfer of costs to other ratepayers.

Submission:

Council must amend its Draft LTCCP to eliminate the differential rating of the Business Sector proposed in the plan and to apply the same general rate to the sector as applies to residential ratepayers.

3. Rating for Depreciation

Council is congratulated for taking action to eliminate its previous practise of rating for the alleged depreciation of its assets. We were heartened to read the commentary of the Mayor and Chief Executive on Pages 8 and 9 of Volume 1 of the Draft LTCCP, concerning the opposition of the Rating Inquiry to this practise and the reasons why Council has changed its approach. We would like to think that Council also took into account our various submissions on this very vexed issue over the past 3 years. As stated in the commentary the previous practise, which is rife among local government, results in many ratepayers being charged three times for council assets and has led to ongoing significant increased demands upon rates income.

We applaud the Council's statement on Intergenerational Equity contained on Page 38 of Volume 2 of the draft plan. It succinctly summarises our view.

On Page 36 of Volume 1 Council has set out very clearly how it intends to fund capital expenditure. We endorse the Council's overall approach as stated. However, we have concerns with statements on Page 41 of Volume 1, under the headings "Funding Capital Expenditure" and "Depreciation".

In the latter case the wording of the second paragraph seems to reaffirm Council's previous practise, as it states "*Throughout the period of the LTCCP 2009-2019 the Council will continue to collect rates to cover the cost of asset depreciation.*" It then goes on to say that the amount collected will be used to fund the replacement and renewal of Council's existing assets. This appears to contradict the intention of Council as set out on Pages 8 & 9 of Volume 1 and Page 38 of Volume 2.

This contradiction is supported by the wording of the third paragraph of the "Funding Capital Expenditure", which appears to retain the status-quo.

We believe that Council must clarify its policy with respect to capital expenditure. Most of Council's assets are infrastructural and generally have long lives and this is evidenced by the table set out on Page 231 of Volume 1.

Clearly, the Council has to be prudent in its approach to asset renewal or replacement. It has to avoid penalising ratepayers through an overly zealous approach to funding capital works from rating income. What has to be taken into account is the fact that most of Council's infrastructural assets have a long "shelf-life", while most operational assets, such as vehicles; portable plant; telecommunications equipment; furniture & C. have short service lives.

Major infrastructure such as roads and piped services has to be maintained as close as possible at 100% service operating levels. It is inevitable that sections of these assets will fail during the course of each year and will be repaired or replaced. Rarely are large sections of roading or pipelines totally replaced. If they are it is part of a programme to upgrade their performance in particular locations. In the case of pipelines, the lifetime of some materials can be less than others. For example, asbestos cement pipes tend to fail early in life when laid in acidic soils.

It is sensible to finance the routine repair or replacement of roading and pipeline assets from rates, probably either on a fixed allowance or an estimated lifetime programme per annum.

Similarly, operational assets of relatively short useful life should be programmed for replacement and be funded by rates, preferably on a level cash flow annually.

However, major assets which have long lives, as shown on Page 231 of Volume 1, are usually replaced for strategic reasons. Rarely is this at the end of their operational lives. In the case of buildings it is common for new structures to be constructed in different locations and on a different scale. It makes no sense at all to fund these from rates income.

Councils should ensure that intergenerational equity is taken into account when large-scale asset construction or replacement is undertaken. Ideally they should be funded from long-term loans.

Submission:

Council must review its capital funding policy statements to ensure that the use of annual rates income is minimised and intergenerational benefit is maximised through loan funding of capital works.

4. Water Conservation

We note the concerns of Council with the ongoing viability of water supply. We have also noted the comments on Page 23 of Volume 1 of the draft plan that Christchurch has a high level of water consumption and that a significant amount of this is for garden-watering in summer. It is also noted that water charges, including meter charges, are proposed to be increased by a massive 10% this coming year.

Council has set out options to meet future demand on Page 18 & 19 of Volume 2. In general we support the intentions of Council to encourage conservation. However, we have reservations that the maintenance of a targeted water rate based on capital value of properties is an appropriate method of both charging for water use and encouraging conservation.

Important consumer services such as motor fuels; power; gas and telecommunications are metered and charged according to actual usage. Such a system encourages conservation and minimises wastage. Council's piped services

are the only public utilities which are not charged on a user-pay basis. Users are not encouraged to conserve water and reduce demands on piped services. The use of high quality treated drinking water for watering gardens or washing cars are good examples of the wasteful use created by a system of charging which does not reward conservation and economy of usage.

It is time that local government throughout New Zealand installed water meters wherever there is a piped supply of water and sewage services. It ensures that costs truly lie where they fall and only when this is done will the public really take steps to minimise their use of water. A water meter can be used for charging for both water and waste-water services, since householder's normal water uses are disposed of through the sewerage system. Thus if householders choose to use water for such activities as garden irrigation or car washing, they will pay a premium which should serve to discourage the use of tap water and encourage the move to collection of rainwater or grey water for irrigation purposes.

The benefits are obvious. The business sector is generally metered for water and charged accordingly. This ensures that businesses find ways in which to minimise their costs and a good example is the recycling of water in car-wash units.

Many councils seem reluctant to make the change, fearful of a backlash from domestic ratepayers, who have more political power than business ratepayers. No doubt many of the loudest critics are those who choose to use water for purposes other than normal household activities. They do not wish to lose the benefits of having their water wastage subsidised by the rest of the community.

Another reason advanced by opponents of universal water metering is an alleged penalisation of large family units, who are said to have a greater demand for water than other households. However, as Council has already acknowledged, much of the demand for water comes from uses which do not require high quality treated water. It is unlikely that the larger family units will generally be those who are currently overloading the water system.

We are confident that the user-pays principle for water and sewage services will encourage conservation and the elimination of wastage. And for many older citizens moving away from a targeted rate will be likely to lead to savings in their total household rating costs.

Submission:

Council should amend its LTCCP to provide for the introduction of universal metering at the earliest feasible time and charge for both water supply and waste water collection & disposal through the metered volumes of water supplied.

5. City Centre Revitalisation

The success of the City's economic development plan will be greatly influenced by its ability to attract people to come to Christchurch to live, to work and to enjoy their leisure time. A key factor in attracting people to Christchurch is the heart of the city, namely its city centre.

The general statement on major projects, set out on Page 29 of Volume 1 of the draft plan, are generally supported.

Similarly the extension to the tramway system shown on Page 14 is supported for the contribution it makes to the attraction of Christchurch as a visitor destination. This is covered in more detail on Pages 211-213 of Volume 1 of the draft

document. Looking at the options laid out on those pages it would seem logical to adopt Option (b) on Page 212. However, since large sums of money are involved, Council must be satisfied that there are significant benefits from the extension.

On Page 24 of Volume 1, reference is made to encouraging residential growth in the city centre and planning for high density housing. These are key elements in ensuring that the city centre is revitalised and will play a very important part in improvements in security through the presence of people in the central areas over the 24 hours of the day. It should also help to reinvigorate the retail, hospitality and entertainment businesses through having a strong customer base in close proximity.

We wish the council well in its endeavours.

6. Social Housing

The Draft LTCCP document raises again the issue of Council's provision of housing. The issue is shown on Page 21 of Volume 1 as a strategic issue and notes that, historically, Council has been involved in the provision of rental housing for older people and is now considering its role in the provision of housing for low-income groups, working alongside Housing New Zealand and other organisations. It is also noted that considerable sums of money will be needed in the near future for the upgrading or renewal of its housing portfolio.

As we stated in 2006, the central government has the responsibility to provide "social housing" for older persons and those on low incomes. There is no reason why Council should attempt to duplicate the service. However, there is possibly a case for Council to provide housing where it is strategically important to the city. Examples could be student accommodation and/or housing for single persons and couples who are on low incomes and do not qualify for Housing NZ accommodation. If it decides to take this course of action or retain its current involvement, it must ensure that the operation is truly self-funding and there is no cost whatsoever to ratepayers, either directly from rates or indirectly from council's financial resources.

Submission:

We urge Council to limit its housing stock to no more than the current level and to negotiate with Housing New Zealand for the progressive acquisition of Council's housing stock as it comes up for major replacement or renewal.

7. Public Toilets

We were very interested to read the information on Pages 10 and 11 of Volume 2 of the Draft LTCCP. These are devoted to the issue of public toilets, with some very interesting technical information and performance details shown on Page 10 and a range of options for improvement to meet demands for public toilet services.

The tables which set out the current performance of the various locations of toilets show that public toilets in Shopping Centres perform better than all other locations in terms of location, cleanliness and amenities. And in spite of shopping centres not being open at night, their toilets were also shown to rank highly in terms of availability.

This report on performance of public toilets within shopping centres shows that our industry is providing a valuable public service which is at no cost to Council

but is of significant cost to shopping centres. Not only are shopping centres charged for water and waste-water disposal but they are also charged, through their rates, for the public toilets provided by Council in other parts of the city, including the central business district.

On Page 11 a number of options are canvassed for meeting public demand. It is not our intention to comment on these in detail. However, it is interesting to note that while shopping centres are required to provide public toilets at their own cost, no such provision exists for other forms of retailing, including supermarkets and large format warehouse styled retailers and bulk retailers.

This seems to be an issue which should be addressed as it is an unfair advantage for this style of shopping. We note that Item 5 of the range of options Council has suggested for changes, there is a proposal to treat the retail and entertainment sectors in a similar way to shopping centres. This would seem to be fair and we support Council taking appropriate action for a change in legislation.

Public toilets in shopping centres are available for use by the general public. Their cost is paid for by retail and commercial tenants of shopping centres who also pay through their rates for public toilets elsewhere in the city. It seems only fair that Council recognise this cost and make a contribution towards the cost of operation of these facilities.

In considering the whole issue of change in the provision of public toilets, Council could take note of the injustice of the present regime and recognise the valuable contribution made by our sector of the community. It would seem fair that the operating cost burden for toilets in shopping centres could be relieved by a subsidy from council in recognition of their "public good" component. Even a 50% rebate of the water and waste disposal charges would be a positive step to reduce the load carried by our retail and commercial tenants.

Conclusion

In conclusion we thank Council for affording us the opportunity to submit our comments on the Draft LTCCP 2009/19. We have not made comments about the many issues we support, because we covered these in some detail in 2006 and Council's objectives and plans have not changed greatly since then.

We reaffirm our strong commitment to Christchurch City and assure you that any proposals we have made in this submission are intended to ensure that the business community can continue to be a key player in the future welfare of the whole community of Christchurch in the current economic climate and out into the future.. We are pleased and proud to play our part in helping the Council to achieve its vision.

We look forward to addressing this submission orally and hope that you will adopt the suggestions that we have made. It would be appreciated if you would formally reply to our specific requests.

Yours faithfully

KIWI PROPERTY MANAGEMENT LIMITED



Karl Retief
MANAGER – RETAIL PORTFOLIO

